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## OPEC Long-Term Strategy

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### Purpose

The OPEC Long-Term Strategy (LTS) is the result of a two and a half year process, led by deputy ministers of petroleum/energy of its member countries, aimed to produce a comprehensive analysis on future objectives and challenges as well as scenarios shaping the socio-economic development of OPEC members.

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### Entering the New Energy Era

In a global economy still heavily dependant on oil as one of the primary sources of energy, it makes sense to keep an eye on ongoing developments and long-term strategies undertaken by a cartel of producing countries, which controls over 80% of the oil supplies in the world, the Organisation of Petroleum Exporting Countries (OPEC).

OPEC members - Algeria, Indonesia, Islamic Republic of Iran, Iraq, Kuwait, Nigeria, Qatar, Saudi Arabia, Socialist People's Libyan Jamahiriya, United Arab Emirates and the Bolivarian Republic of Venezuela - supply around 30 million barrels per day (mbd), a figure which, according to Iran - second biggest producer -, puts the Organisation at "its utmost capacity". And given that existing oil reserves figures show that there is plenty of oil to meet global needs for several decades, the main challenge for the Organisation is that of deliverability and not availability. Within this context, in 2003 OPEC embarked on a two-and-a-half year process aimed to develop its Long-Term Strategy (LTS).

For doing so, the Organisation focused on major changes affecting the oil industry and identified major challenges and opportunities for OPEC Members.

The LTS process took a scenario approach (1) to design robust and adaptive images of the future of the oil sector, as well as (2) to draw strategies, which may allow OPEC to continue expanding both upstream and downstream investments in order to contribute towards a more solid foundation for the future market stability. Obviously, OPEC's efforts to tackle the global problem of energy supply should be recognised by the world, and consuming countries should maintain the security of demand, in return. However, the role of consumers and producers is not that simple. Both need to be aware of the risks and benefits of future developments in the downstream and upstream sectors as well as the potential opportunities and threats which emerge from new technologies, environmental regulations and growing concerns on issues such as climate change and global warming, etc.

With these as major guidelines, OPEC's LTS identified major areas where OPEC members can have leading role in the foundation of the so-called new energy era.



## The Role of Oil in 2020

Based on the assumption that oil 'will remain the main fuel over the next 20 years', the LTS has taken a scenario approach to explore three scenarios:

- **Dynamics as Usual (DAU)**  
using current patterns of global economic growth
- **Protracted Market Tightness (PMT)**  
using higher rates of global economic growth
- **Prolonged Soft Market (PSM)**  
using lower rates of global economic growth

Several factors were considered as key shapers of the future oil demand: demographics; advances in technology; capital availability and trends in commodity prices; domestic policies and global trade developments; regimes; environmental policies; financial regulations; and international imbalances, such as current account and budget deficits. And given that major consuming countries' policies have also affected the oil de-

mand with higher tax rates on oil products and more subsidies on alternative fuels - e.g. biofuel -, OPEC members perceived the need for a coherent and consistent strategy for the Organization. The LTS puts oil demand in Dynamics-as-Usual scenario at an average of 1.5 mbd increase by 2020, with 3/4 of it coming from developing countries. The Protracted-Market-Tightness scenario suggests the demand would beat DAU prospects by more than 5mbd whereas the Prolonged-Soft-Market scenario goes below DAU average by 7mbd. Such uncertain future for the oil demand represents a key challenge for both OPEC and non-OPEC oil producers given that the oil demand "could range by as much as 10mbd or more". The LTS thus looks at the whole supply chain from crude to product and points out that while the upstream sector - exploration, drilling, production - is practically under control in member countries, the situation in the downstream sector - distribution, marketing and refining - is "far behind" future oil demands, suggesting strategic partnerships were needed among members and between members and consumers.

## Key Features of OPEC's LTS

- **Promoting Fair & Stable Prices:** The LTS recognises that "extreme price levels, either too high or too low, are damaging for both producers and consumers", therefore it proposes that OPEC Members become "more proactive under all market conditions". Unstable prices do nothing but putting in danger the sustainability of supply as well as the security of demand.
- **Monitoring Economic, Technological & Political Developments in the Oil and Other Key Sectors:** The LTS recommends the use of so-called 'leading indicators' to monitor economic downturns and upturns affecting the oil demand and supply. However the process should be extended to policies and technological developments in other key sectors in order to measure possible impacts on the oil sector.
- **Promoting Timely and Sensible Plans for Capacity Expansion:** Capacity expansion investments are normally affected by uncertainties concerning the future oil production in OPEC countries. Therefore big efforts would need to be made in order to reduce the burden of risk in making investments, especially in the downstream sector.
- **Encouraging Consuming Countries to Increase Investments in the Downstream Sector:** The LTS considers that consuming countries and international oil companies have the main responsibility for investing in the downstream sector. As pointed out by several analysts, the newest refinery in the USA (the world's major oil consumer) is about 30 years old, despite the uninterrupted growth of demand for oil products there and worldwide.

- **Strengthening RTD Cooperation Among Members and Between Members and Other Actors:** The LTS stresses the need for stronger partnerships in both upstream and downstream scientific RTD among members and with international organisations, companies, etc.
- **Promoting the Development of Technologies that Address Climate Change Concerns:** The LTS also makes emphasis on the need for technology-based responses to air quality and climate change problems. Successful examples such as the carbon dioxide capture and storage technologies - e.g. enhanced oil recovery - would improve the environmental credentials of OPEC Members.
- **Promoting the Application of Advanced Upstream Technologies:** The LTS urges OPEC National Oil Companies to promote cooperation in activities aimed at sharing technology, knowledge, and experience, in particular for the application of advanced upstream technologies. Among the potential benefits of cooperation in exploration and development activities are: reducing costs, increasing recovery rates, and widening frontiers, thus increasing competitiveness.
- **Promoting a Fair Rule of Common but Differentiated Environmental Responsibilities:** The LTS advocates for a fair rule of common but differentiated environmental responsibilities. In doing so, OPEC should play a stronger role in making the international community fulfil its obligations with developing nations, for example:
  - minimising the adverse effects of environmental regulations and measures on fossil-fuel exporting developing countries;
  - promoting economic diversification;
  - transferring technology; and

- building capacities.
- **Promoting Deeper Dialogue Among Oil Producers, and Between Producers & Consumers:** The LTS suggests OPEC Members become more active in trade-related discussions and at the same time use their natural resources as a comparative advantage for improving economic and social development. The LTS also recognises the need for deeper dialogue among producers and between producers and consumers.

Several key issues have emerged as central topics for those discussions:

- market stability;
- security of demand and supply;
- upstream & downstream investment;
- upstream & downstream technologies, among others.

Besides the producing and consuming countries, several other stakeholders should also take part in this process, for example: regional organisations - e.g. European Union), bodies of the United Nations system, the International Energy Agency (IEA), the International Energy Forum (IEF), etc. The presence of observers - non-Members producing countries - in OPEC ministerial meetings is regarded as important and strategic given that the Organisation is considering an expansion of Members and Associates.

- **Stressing the Positive Role of OPEC in the World:** The LTS highlights OPEC's role in supporting oil market stability, and laments the existence of preconceptions and misunderstandings on this matter. In this regards, key factors impacting on the oil prices such as speculation in the futures market, geo-politics and natural calamities were seen as far beyond control of OPEC members.

## Asia's Growing Interest in OPEC

In his closing remarks during the Third OPEC International Seminar "OPEC in a New Energy Era: challenges and opportunities", September 2006, Dr. Edmund M. Daukoru, President of the OPEC Conference and Minister of State for Petroleum Resources in Nigeria, stated that:

*"A changing pattern in the dynamics of oil demand is being witnessed today, with a geographic shift in growth patterns from the OECD countries to emerging Asia,*

*China in particular. This growth will be primarily driven by the transportation sector"*.

At the Seminar, similar remarks made by Dr. Guoqiang Utang, Ambassador to Permanent Mission of the People's Republic of China to the United Nations and other International Organizations in Vienna, portrayed OPEC as "a major force in stabilizing the world oil market". He also recognised that "China is ready to enhance the cooperation with OPEC member states and other countries or regions in the world by moving into a new era of comprehensive, mutually beneficial and diversified international energy cooperation".

## EU's Energy Dialogue with OPEC

Since 2004, the European Union (EU) and OPEC have established the so-called Energy Dialogue, whereby meetings and workshops are organised to discuss energy policies and possibilities for cooperation. And, within this framework, Dr. Heinz Hilbrecht, Director for Conventional Energy Sources, at the Commission of the EU, presented in September 2006 various key goals and instruments of the EU's external energy policy, which include partnership with producers, transit countries and other international actors.

In this respect, the EU policy sees OPEC-EU Dialogue as a mutually beneficial initiative, which contributes to increase security and predictability in the market, "thus paving the way

*for the necessary long-term investments"*. And, according to Dr. Hilbrecht, the EU's "dialogue with OPEC is developing towards several directions... And cooperation on a number of issues is reviewed:

- *the first of these issues relates to the energy policies adopted by both sides and their impact on oil markets - demand and supply;*
- *the second concerns investments in the refining sector and their impact on crude and product prices and volatility; and,*
- *the third issue is climate change and carbon capture and storage technologies"*.

## Implementation of OPEC's Long-Term Strategies

Since the publication of OPEC's LTS, the Organisation and its Members have undertaken several actions in line with the LTS, some of these include:

- **Projects to build new refineries.** Several countries began refinery-building projects - Algeria, Nigeria, Kuwait, Saudi Arabia, and Venezuela. These initiatives are coherent with features 3 and 4 (see above) of the LTS.
- **Conferences and workshops to discuss key developments in the sector.** In December 2006, OPEC and the EU organised a two-day Joint Workshop that focused on the following two questions: *Do the prices of futures in-*

fluence the prices of the underlying markets? And, Does the futures-based pricing system create too much price volatility? The workshop helped both OPEC and the EU to better understand the issue of the speculative financial markets impact on the price and volatility of oil, thus relating the event to Features 1, 9 and 10 of the LTS.

- **Projects in the upstream sector.** Given the number of OPEC Members and given that the upstream sector - exploration, production, etc. - is rather broad, on this point two examples from Venezuela will be used to illustrate how current investments are aligned to Feature 3 of the LTS:
  - On exploration & certification investments: *“the Magna Reserva project that aims to quantify and certify Venezuelan reserves [...] will add approximately 235 billion barrels of oil [...] to the already proven reserves of 77bn b, thus making Venezuela the country with the largest accumulation of liquid hydrocarbon reserves in the world, with an approximate total of 312 billion barrel.”*
  - On production investments: *“In Venezuela, the combined investment (2006–2012) is expected to be close to \$60bn, with the focus on increasing production capacity from 3.3m b/d today to 5.4m b/d by 2012.”*
- **Energy Dialogues with key regions and countries.** OPEC has institutionalised the so-called Energy Dialogue with key regions and countries, such as: the European Un-

ion; the Russian Federation; and the People's Republic of China.

- **Regular bulletins, reports and databases.** OPEC regularly publishes statistical bulletins, reports and news on its web site. The Organisation is also building a comprehensive database to track global production and trade in the oil sector. These and other policies reinforce Feature 2 of the LTS.
- **Efforts to achieve fair and stable prices.** In a 2006 interview made by OPEC Editor, Dr. James Griffin, to the Venezuelan Minister of Energy and Petroleum and President of *Petróleos de Venezuela*, Dr. Rafael Ramírez, when asked for a fair and sustainable price going forward, Ramírez said, *“geopolitical factors; particularly the situations in Nigeria and Iran and a bottleneck in refining capabilities, need to be taken into consideration...”* In relation to fair prices he suggests that *“somewhere around \$50 plus for a barrel, but who knows? What happens if Iran suffers supply disruptions because of geopolitical events? Just imagine we could be looking at \$100 a barrel! It needs to be remembered that you cannot demand stability in the markets when you introduce instability.”* Having said so, it is clear oil price stability does not only depend on producing countries pumping more or less oil. There is a need for a global commitment to avoid certain geo-political events from happening. In this sense, public statements such as the one above are in line with Feature 3 of the LTS.

## Conclusions

The OPEC's LTS process made use of Scenario-Approach to identify key areas where *“OPEC Members, both as individual sovereign nations, as well as members of an Organization, can support their own pressing needs for socio-economic devel-*

*opment, while playing a vital role in the international community”*.

While the process is more likely to resemble a strategic planning exercise, certain characteristics, such as the long-term perspective, pragmatism, open and inclusive dialogue have caught the attention of foresight practitioners, thus making it eligible for the preparation of this EFMN Brief.

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